

Executive Summary

Tesco, the third largest food retail company in the world after Wal-Mart and Carrefour, is coming to the United States. This supermarket giant has plans to roll out more than 100 stores in the next year in the Los Angeles, Phoenix, Las Vegas and San Diego regions, and anticipates future expansion throughout the country. Tesco's U.S. plans are ambitious, as it seeks to make its U.S. operations as massive as its presence in the United Kingdom where it dominates the grocery business with a 31% market share. As a global player that operates in 12 countries, Tesco's arrival in the United States can significantly influence the direction of the U.S. grocery business in such areas as labor, environment, health and the food system.

Tesco has been adept at promoting itself as a socially responsible corporation. In the United Kingdom, the company argues that it has a positive record of accomplishment in improving access to fresh and affordable food, creating positive employer-employee relationships, addressing environmental and health concerns, and establishing ethical relationships with suppliers and subcontractors. With regard to its U.S. venture, Tesco has made promises to pursue some, but not all, of these aspects of its corporate responsibility approach.

For its U.S. launch, Tesco has decided to create a new brand name – the Fresh & Easy Neighborhood Market – based on a store size of 10,000 square feet that emphasizes fresh food and prepared meals and that will include the same product mix at all its locations. Tesco is seeking to keep overhead costs low through centralized distribution, a high percentage of own brand products, smaller store size and a largely part-time staff. This approach, combined with an infusion of significant funds, will make for rapid expansion in the United States.

This report evaluates Tesco's operations in the United Kingdom and in other countries. It lays out the initial decisions Tesco has made about its U.S. plans regarding store locations, work force, product mix, supply chain organization, and environmental and health programs. The report describes Tesco's strategies as well as the contrasting views of Tesco critics and the company's own claims, concluding that, like Wal-Mart, Tesco's role as a giant, global corporation has a significant impact on the health, working conditions, fresh food access, environmental quality and other important needs of a community. The report then offers recommendations for the policies, community agreements and regulatory actions that

can be undertaken to address those impacts and insure accountability.

The main findings of *Shopping for a Market* include:

Global Position: *Tesco has come to rival Wal-Mart as a sophisticated and successful corporation with shrewd marketing capability.* Tesco has annual profits exceeding \$3 billion, an aggressive plan for continuing international expansion and a capacity to identify market niches, while relying on key standardized features for its business model. In addition, its rapid expansion into non-food areas, undermining of competitors, especially smaller, locally-based stores, and the fortification of its dominant position in the United Kingdom, have allowed Tesco to leapfrog in only a dozen years to rival, mimic, and challenge Wal-Mart as the most aggressive and dominant food retailer in many of the places it operates.

Food Access: Tesco has highlighted its promise to locate several of its stores in low-income communities, including those areas with high rates of poverty and food insecurity that have no direct access to a full-service grocery store. *Of the first 98 stores that have been identified as future Tesco store sites, 10 stores, or approximately 10% of those sites can be considered high poverty, low-income areas. Of those 10 sites, two are located in less populated, non-urban areas where there is no food market within a one-mile radius. Of the remaining eight, one location (which is currently still in negotiation) at Adams and Central in the city of Los Angeles, does not have a full service market within a half-mile area. The other seven locations have one or more chain supermarkets within a half-mile radius. One additional store proposed for the Compton area, where the poverty rate is close to the county average, also lacks a full-service market within a half-mile.* Tesco has touted its efforts in the United Kingdom to increase fresh food access and create

economic opportunities in low-income communities. However, Tesco has also been criticized for hindering, rather than increasing, food access in urban centers because of its huge presence and multiple locations throughout the United Kingdom that threaten smaller independent stores, as well as for its enormous real estate acquisitions and influence over land use and for its aggressive efforts to bypass or avoid regulations.

Workplace Issues: Tesco promises that its stores will be “a great place to work.” However, in the United States, *the company has decided to rely on part-time rather than full-time employees at its stores, limiting the ability of its workers to earn a living wage without having to juggle multiple jobs.* In addition, Tesco has refused to engage in discussions with local unions. Its position on unions in the United States contrasts with its partnership with a large British union that represents over 120,000 Tesco store workers in the United Kingdom. At the same time, Tesco has had contentious relationships with other U.K. unions, and work place abuses have been identified among several of Tesco’s suppliers and contractors.

Health and Environmental Concerns: Tesco states that it wants to help deliver “a revolution in green consumption” through its initiatives around climate change and other environmental concerns, such as energy use and waste generation. The company has also proposed to improve the health and nutrition of both customers and employees. In the United Kingdom, these initiatives have focused on the individual consumer through such programs as informational labeling and Tesco Clubcard incentives. Some Tesco critics have faulted aspects of the company’s track record on the environment and its mixed signals on health-related issues. *For example, in the United States, Tesco’s warehouse plans include a solar roof that will provide 20% of its energy. However, the warehouse is located in a heavily polluted region that the additional truck traffic and its emissions of particulate matter will further turn the region into a type of environmental sacrifice zone. In the United States, Tesco has promoted its pro environment and health profile, hoping to attract an environmentally conscious and health-oriented consumer base in Los Angeles and the Southwest. However, the company does not plan to duplicate all of its U.K. initiatives in this area.*

Supply Chain Issues: For both its food and non-food products, Tesco has a vast supply chain that reaches across the globe, and involves thousands of suppliers and subcontractors. Tesco has maintained an abiding interest in exerting its power over its suppliers in order to maximize cost savings and production

flexibility, particularly for its in-house products. Supply chain abuses, such as poor working conditions, food safety problems and environmental exposures have been documented by governmental agencies, non-profit groups, and the media. Tesco claims that it seeks to address supply chain abuses when they are raised, but then adds that it finds it difficult to monitor all the activities of its suppliers and their subcontractors. *Tesco has brought in several of its major U.K. suppliers to help establish its U.S. supply chain and duplicate some of its U.K. product offerings, such as chilled prepared meals. Early indications suggest that many of its U.K. supply chain approaches – e.g., maximizing cost savings and creating a high percentage of in-house brands – are to be applied in the United States. Unfortunately, Tesco has no current plans to develop a local food sourcing approach (i.e., supporting small local and regional farmers) as it has pursued in the United Kingdom.*

Tesco’s entry into the United States presents important opportunities, but also significant concerns about the impacts it will have on the U.S. food system, and the food access, labor, environmental, cultural, and health issues associated with those impacts. Tesco’s short-term goal is to rapidly establish a brand name and a market niche, while in the long-term, it is seeking to become one of the biggest, if not *the* biggest, grocery chain in the United States. This global giant’s plans for the United States raise a number of important questions about its promises and its performance. Is a neighborhood food market truly part of the neighborhood (as Tesco argues it will become) if the products it offers are conceived and designed as part of a global business model? Can fresh food access be improved as a company increases its market share, if the majority of its stores are located in suburban and middle-income communities? Does the fact that Tesco has identified a company goal to address the problem of food access make it more accountable for fulfilling that goal? Can such markets be a “great place to work” if jobs are part-time and non-union? Can Tesco shed its global identity and provide food that is locally and culturally specific, if it fails to develop a mechanism for local, community input that gives each store a distinctive neighborhood association?

In evaluating promises and performance, the report recommends that residents, shoppers, policymakers, food activists, as well as community, environmental and labor groups, be involved in identifying areas where Tesco needs to be held responsible for its store and supply chain practices. *Such accountability measures should apply not just to Tesco, but*

also to all supermarket chains, and could include specific policies, regulatory actions or community agreements. A full list of recommendations is available in Section III of the report. Key recommendations include:

Tesco should increase the number of stores in low-income, underserved communities. Since the company strongly highlights its commitment to food access in low-income communities, it should be held accountable and identify a goal for how many of its stores it will locate in communities that have high rates of poverty and that are food insecure. If the company fails to reach the target percentage, then Tesco could pay into a linkage fund, the proceeds of which would help jurisdictions attract healthy food stores to underserved neighborhoods. As a policy matter, this approach should be applied to all supermarket chains.

Tesco needs to insure that a substantial percentage of its store-based work force are full-time employees who are paid a living wage, and have affordable, quality health benefits. The company should also establish a positive relationship with labor unions or at least take a position of neutrality and not seek to influence employee decisions on whether to join unions.

Tesco should establish mechanisms for community input into its operations. Advisory committees or similar community mechanisms for dialogue can help stores stock products desired by local shoppers, identify innovative transportation programs, connect to important community events and generally build customer loyalty and a neighborhood partnership.

Tesco should establish mechanisms to increase local sourcing for its products and support small local and regional farmers. It could help accomplish this goal through labels identifying

the product's origin (e.g., California grown or Arizona grown) and commit to a goal of <1% of its products to be sourced outside the United States.

Tesco should design and site new stores (or adapt existing buildings) following the principles of green design and smart growth, and minimizing climate change impacts. Stores should be energy efficient, use nontoxic and renewable building materials and, where feasible, include solar panels. Tesco should achieve LEED or green building certification for its stores to demonstrate commitment to sustainable design, and should make information on stores' environmental features available to customers and community members. Stores should also be accessible to pedestrians, bike riders and public transportation.

While few examples exist of food retail entities that address the majority of the concerns raised in this document, a number of the ideas and recommendations have been implemented by at least one grocery company or other retail market. In some areas, Tesco can be considered stronger than its U.S. competitors, while in other areas, Tesco's proposed plans may well reverse progress made by unions, community groups, sustainable food advocates, and environmental organizations. The authors view Tesco's entrance into the U.S. market as an opportunity to challenge all food retailers to think broadly about the social and environmental impacts of the way they conduct their businesses. Perhaps Tesco spokesperson Simon Uwins put it most aptly in describing why he loves retailing, "It's so democratic: our customers and our employees will decide whether or not we've been successful in creating a great shopping trip and a great place to work.... and that's how it should be."¹

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